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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER MARCH 30, 2006
ISSUE

11. (U) Summary. This is Volume 7, issue 13 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- Private Sector Growth Rate at 7 percent
- Automotive Component Revenue Thrives
- New Plans to Ease Skills Shortage
- Eskom's New Power Stations - Five Year Plan
- New Proposal to Boost Textile Industries
- Chinese Textile Quota Causes Controversy
- Bilateral Trade Continues Despite Zim Woes
- 2010 World Cup Soccer Airport Expansions

End Summary.

Private Sector Growth Rate at 7 percent

12. (U) Employment in medium and large private business grew 7% last year, according to a Grant Thornton index that forms part of the Grant Thornton international business report. Last year's employment growth was only 3% growth due to hampered growth in the manufacturing sector. Sixty-three percent of privately held businesses in SA increased their staff in 2006. The outlook for next year is also positive as 53% of South African companies taking part in the study indicated they expected to increase their staff complement next year. All major industry sectors in SA reported an increase in employment: manufacturing up 5%, services 8%, and retail growth 4%. (Business Day, March 27, 2007)

Automotive Component Revenue Thrives

13. (U) The local motor industry continues to thrive under the protection of the Motor Industry Development Program (MIDP). The revival of the industry has extended to car-part exports, which increased 32% in 2006, boosting industry revenues to 30.3 billion rand (\$4.3 billion). Exported parts that were up by more than 50% included catalytic converters, exhausts, radiators, and axles. According to the National Association of Automotive Component Manufacturers, this wide range of parts is confirmation that SA can manufacture components locally and that SA vehicle assemblers have significant opportunity to increase local content. Local production has fallen gradually during the past three years. (Business Day, March 28, 2007)

New Plans to Ease Skills Shortage

14. (U) The Joint Initiative on Priority Skills Acquisition (JIPSA) has been unable to counter the current skills shortage in the first year following JIPSA's implementation. Targeting engineers and artisans, the government intends to increase the number of qualified engineers and artisans to 12,000 and 50,000, respectively, by 2010. Currently, SA only produces about 5,000 artisans each year, but needs to raise this number to at least 12,500 to reach its goals. One stumbling block is the need to streamline legislation on artisan training and the apprenticeship system. According to Business Unity SA, JIPSA "missed the boat" by failing to get its proposals for amending the legislation on artisan training before the cabinet this year. Under the new plans, the National Qualification Framework has been widened to recognize more foreign qualifications for artisans. Education and training programs are also to be improved. JIPSA has detailed plans for other priority areas including development of call center staff via Department of Trade and Industry training subsidies, and the funding of training for tourism industry employees by the National Skills Fund. Other targeted areas include city and urban planning, infrastructure development, mathematics, science, and information and communications technology. (Business Day, March 27, 2007)

Eskom's New Power Stations - Five Year Plan

15. (U) State-owned power utility Eskom unveiled on March 20 the new official names for the four new power stations that are to be built over the next five years in its latest R150 billion (\$20 billion), five-year capacity building program. Eskom proposes to build a 4,500 MW coal-fired station, called 'Medupi', (meaning "the rain that soaked the lands, giving economic relief") near Lephalale

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(previously Ellisras) in Limpopo Province. This station will be near to the existing Matimba power station and will also source its coal from the Waterberg deposit. The second station is a pumped-storage peaking capacity plant named Ingula (referring to the creamy contents at the top of a milk calabash). Ingula will be located in the Drakensberg, near Ladysmith in KwazuluNatal Province.

16. (U) An open cycle gas turbine (OCGT) station is to be named "Ankerlig" -- an Afrikaans term signifying a community rising from poverty to achieve growth and prosperity. This station will be located at Atlantis in the Western Cape Province. A second OCGT station will be known as Gourikwa, which is the name of the ethnic group that once lived in the area. This station will be located at Mossel Bay, also in the Western Cape Province. Collectively, the two OCGT power stations will add another 1,050 MW to the national grid. Eskom has stated that it plans to add more units to the two power stations that will increase the total output of the two gas-fired power plants to 2,100 MW. Additionally, Eskom is bringing back into service three previously mothballed plants that will add 3,800 MW to the system. These plants are being largely rebuilt. Four units at the Camden plant are already in operation and a fifth unit will be ready by winter. The Grootvlei plant will have one unit operational by winter and the Komati plant will have one unit by September. All should be fully operational within five years. Eskom is also to launch a pilot cogeneration project in April as it moves towards achieving at least 900 MW from cogeneration by 2011.

New Proposal to Boost Textile Industries

17. (U) A new proposal to boost the clothing and textile industry is expected to enhance the sector's competitiveness. With SACU's Textile and Clothing Industry Development Program (TCIDP) ending this month, the clothing and textile business associations have proposed an incentive scheme for eligible manufacturers in the region. The proposed benefit under the new program is a customs duty credit based on a percentage of the value of goods made by a participant. The previous scheme placed emphasis on the percentage of the value of the participant's exports. In the interim, the associations have lobbied the government to extend the TCIDP until

March 2009. The current program has been unsuccessful to date in enabling SA manufacturers to compete with the low-cost Chinese garment industry, which has had a negative impact on this sector and resulted in the imposition of a textile quota on Chinese imports.

Chinese Textile Quota Causes Controversy

18. (U) The quota on Chinese textile imports has been surrounded by controversy and resistance since its inception in late 2006. Private sector manufacturers and retailers were not consulted before the quota agreement with China was signed. The government had to push back the implementation date until the beginning of 2007 to accommodate retailers with orders already being shipped. Many retailers have skirted the quota by purchasing from other low-cost producers in Southeast Asia, instead of from local manufacturers. The quota has again made the news due to an unintended negative consequence for local manufacturers, the entities it was intended to protect. Some manufacturers have been prevented from importing fabric not available locally, which has had a dire effect on factories and threatens jobs. The government has stated that it would consider written requests from importers to increase their quotas under special circumstances, notably where products were manufactured only in China or not locally in SA. However, this concession for an allowance will only be granted if the manufacturers commit to measure that help develop the local industry. (Business Day, March 30, 2007)

Bilateral Trade Continues Despite Zim Woes

19. (U) Despite its deepening economic crisis and exorbitant inflation rate, Zimbabwe's trade with SA continued at a strong pace in 2006, with platinum exports to South Africa jumping sharply. Zimbabwe remained SA's biggest African market until 2006, when Zambia slightly nudged ahead. SA continues to be Zimbabwe's lead trade partner, providing more than half of Zimbabwe's imports and absorbing one third of its exports. SA Revenue Service reports that SA trade with Zimbabwe in 2006 totaled 11.92 billion rand (\$1.7

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billion), including exports of 7.26 billion (\$1 billion) and imports of 4.46 billion rand (\$637 million). (Compared to 4.79 billion rand (\$684 million) and 3.54 billion rand (\$506 million) in 2000, respectively). Some local economists say SA has benefited from Zimbabwe's pariah status, becoming the supplier of choice as global goodwill evaporates. Some of SA's expanding exports to Zimbabwe center on fuel, electricity, and food, essentials that were not traded just a few years ago. The informal market is also expanding, driven by the estimated three million Zimbabweans abroad who provide foreign exchange for goods needed by relatives at home. It is estimated that approximately 10,000 people cross the border between SA and Zimbabwe each day carrying goods for their own use or to sell in the black market. (Financial Mail, March 30, 2007)

2010 World Cup Soccer Airport Expansions

110. (U) Airline Companies South Africa (ACSA), which owns and operates all of South Africa's major airports, announced that even with significant expansions at the Cape Town, Johannesburg and Durban airports, peak demand for the 2010 World Soccer Cup will exceed capacity. To meet the temporary surge in passengers, ACSA is also upgrading and expanding secondary airports (e.g., the Lanseria airport near Pretoria). The announcement was made by ACSA executive Mr. Andre ver Meulen at the Board of Airline Representatives South Africa (BARSA) annual conference held March 23-25 near Cape Town. ACSA is engaged in a 19.3 billion rand (\$2.76 billion) capital expansion plan aimed at increasing total airport capacity by 40% from the current 33 million passengers per year to 45 million by 2012. At O.R. Tambo International Airport (formerly Johannesburg International Airport), ACSA will open a new international pier on June 1 and expects to complete a new central terminal building there by the end of 2008.

